

MASB-SEG Property/Casualty Pool, Inc. and Subsidiary

Contents

Report Letter	I
Management's Discussion and Analysis	2-5
Consolidated Financial Statements	
Statement of Net Assets	6
Statement of Revenue, Expenses, and Changes in Net Assets	7
Statement of Cash Flows	8-9
Notes to Consolidated Financial Statements	10-15
Report Letter	16
Required Supplemental Schedules	
Schedule of Operations by Policy Years	17
Schedule of Claims Development	18

Independent Auditor's Report

To the Board of Trustees
MASB-SEG Property/Casualty Pool, Inc. and Subsidiary

We have audited the accompanying consolidated statement of net assets of MASB-SEG Property/Casualty Pool, Inc. and Subsidiary (a not-for-profit corporation) as of June 30, 2005 and 2004 and the related consolidated statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Pool's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of MASB-SEG Reinsurance Limited, a wholly owned subsidiary, which statements reflect total assets of \$5,671,346 and \$5,699,048 as of June 30, 2005 and 2004, respectively, and total revenue of \$106,171 and \$68,972 as of June 30, 2005 and 2004, respectively, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for MASB-SEG Reinsurance Limited, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MASB-SEG Property/Casualty Pool, Inc. and Subsidiary at June 30, 2005 and 2004 and the consolidated changes in financial position, including cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

September 2, 2005

A member of



A worldwide association of independent accounting firms

MASB-SEG Property/Casualty Pool, Inc. and Subsidiary

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of the statement of net assets, the statement of revenue, expenses, and changes in net assets, and the statement of cash flows. Along with the footnotes, they provide detailed financial information concerning the MASB-SEG Property/Casualty Pool, Inc. and Subsidiary (the "Pool"). This section, the management's discussion and analysis, is intended to provide an overview of the Pool's financial condition, result of operations, and other key information.

Financial Overview

In analyzing the Pool's financial position, it is important to recognize the mission of the Pool. From a financial perspective, the Pool's general objectives are to formulate, develop, and administer, on behalf of the members, a program of insurance, to obtain lower costs for that coverage, and develop a comprehensive loss prevention program. As of June 30, 2005, 468 educational institutions within the state of Michigan participate in the Pool.

The key financial statistics for the Pool would be based on total anticipated claims to be paid in a specific policy year as compared to the contributions received from members, otherwise known in the industry as a "loss ratio."

	Policy Year Ended		
	2005	2004	2003
Total premiums	\$ 32,184,839	\$ 30,717,560	\$ 27,072,906
Total estimated claim payments	\$ 13,390,909	\$ 12,790,350	\$ 9,329,125
Loss ratio	41.6%	41.6%	34.5%

Total estimated claim payments for each policy year consist of claim payments and an estimate of unsettled claims estimated by a third-party administrator and an estimate of claims incurred but not reported by an independent actuary. The methods of making such estimates are continuously reviewed by management, and according to industry practice, any changes to these estimates will have an impact on reported results of future periods. Claim payments can change significantly from period to period because the ultimate amount paid for claims is dependent on the frequency of claims filed as well as other events such as jury decisions, court interpretations, and legislative changes.

MASB-SEG Property/Casualty Pool, Inc. and Subsidiary

Management's Discussion and Analysis (Continued)

Financial Overview (Continued)

To reduce the Pool's exposure to large specific claims, the Pool enters into excess insurance contracts to recover specific claim losses in excess of stated amounts in the excess insurance contract. Currently, the per claim limit totals \$500,000.

The Pool's total assets, liabilities, and net assets remained consistent from a year ago. Approximately 94 percent in 2005 and 98 percent in 2004 of the assets consist of investments. Approximately 61 percent in 2005 and 76 percent in 2004 of total liabilities consist of reserves for claims. Due to the nature of property/casualty claims and the related reporting and settlement processes of claims, it is anticipated, based on historical averages of the Pool, that approximately 31 percent of the estimated reserves for claims will be settled within one year. The analysis below presents a comparison of the Pool's current year financial position to the prior year:

	2005	2004	% Change
Total assets	<u>\$ 60,816,925</u>	<u>\$ 58,981,772</u>	3.1%
Current liabilities	\$ 12,594,564	\$ 12,238,408	2.9%
Long-term liabilities	<u>8,697,594</u>	<u>13,284,050</u>	-34.5%
Total liabilities	21,292,158	25,522,458	-16.6%
Net assets - Unrestricted	<u>39,524,767</u>	<u>33,459,314</u>	18.1%
Total liabilities and net assets	<u>\$ 60,816,925</u>	<u>\$ 58,981,772</u>	3.1%

MASB-SEG Property/Casualty Pool, Inc. and Subsidiary

Management's Discussion and Analysis (Continued)

Financial Overview (Continued)

The following table shows the major components of income from operations for the current year, compared to the prior year:

	2005	2004	% Change
Revenue			
Premiums	\$ 32,234,839	\$ 30,727,561	4.9%
Investment earnings	2,202,440	1,723,844	27.8%
Realized and unrealized gains and losses on investments	(32,613)	596,592	-105.5%
Total revenue	34,404,666	33,047,997	4.1%
Expenses			
Total provision for claims	(9,783,548)	(10,387,721)	-5.8%
Total operating expenses	(14,286,252)	(12,286,935)	16.3%
Total expenses	(24,069,800)	(22,674,656)	6.2%
Excess of Revenue Over Expenses	10,334,866	10,373,341	-0.4%
Premium and investment earnings surplus returned to members	(4,269,413)	(4,112,213)	3.8%
Total Increase in Net Assets	<u>\$ 6,065,453</u>	<u>\$ 6,261,128</u>	-3.1%

The increase in operating expenses is a result of an increase in the MCCA assessment from the State of Michigan and an increase in reinsurance fees. Total provision for claims, as noted above, is dependent on many factors and will change from year to year based on these factors.

Economic Factors and Next Year's Rates

The expected rates charged by the Pool for premiums for the next fiscal year are not expected to increase. MCCA assessment is expected to increase by 11 percent as a result of anticipated rate increases by the State of Michigan. All other operating expenses are expected to remain consistent with amounts reported in 2005. The provision for claim payments is expected to be consistent with historical trends and we are unaware of any economic events or legislative events that would have a significant impact on the operations of the Pool.

MASB-SEG Property/Casualty Pool, Inc. and Subsidiary
Management's Discussion and Analysis (Continued)

Contacting the Pool's Management

This financial report is intended to provide our members and regulators with a general overview of the accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact Timothy J. Averill, CPA, Director of Finance and Corporate Operations, MASB-SEG Property/Casualty Pool, Inc. and Subsidiary, at 517-482-0871.

MASB-SEG Property/Casualty Pool, Inc. and Subsidiary

Consolidated Statement of Net Assets

	June 30			
	2005		2004	
	MASB-SEG Property/Casualty Pool, Inc.	MASB-SEG Reinsurance Limited	Consolidated Totals	Consolidated Totals
Assets				
Cash and cash equivalents (Note 2)	\$ 48,047	\$ 27,654	\$ 75,701	\$ 313,243
Investments (Note 2)	51,767,267	5,639,021	57,406,288	57,248,929
Premiums receivable	1,049	-	1,049	152,942
Accounts receivable - Reinsurance (Note 6)	2,178,777	-	2,178,777	48,081
Prepaid assets	724,490	4,671	729,161	752,149
Accrued interest receivable	425,949	-	425,949	466,428
Total assets	\$ 55,145,579	\$ 5,671,346	\$ 60,816,925	\$ 58,981,772
Liabilities and Net Assets				
Liabilities				
Current liabilities:				
Accounts payable	\$ 1,540,388	\$ 16,074	\$ 1,556,462	\$ 361,168
Deferred revenue	2,448,102	-	2,448,102	2,337,240
Current portion of reserves for claims (Note 4)	4,290,000	-	4,290,000	5,440,000
Premium and investment earnings surplus due to members (Note 5)	4,300,000	-	4,300,000	4,100,000
Total current liabilities	12,578,490	16,074	12,594,564	12,238,408
Long-term liabilities - Reserves for claims, net of current portion (Note 4)	8,697,594	-	8,697,594	13,284,050
Total liabilities	21,276,084	16,074	21,292,158	25,522,458
Net Assets - Unrestricted (Note 5)	33,869,495	5,655,272	39,524,767	33,459,314
Total liabilities and net assets	\$ 55,145,579	\$ 5,671,346	\$ 60,816,925	\$ 58,981,772

MASB-SEG Property/Casualty Pool, Inc. and Subsidiary

Consolidated Statement of Revenue, Expenses, and Changes in Net Assets

	Years Ended June 30			
	2005		2004	
	MASB-SEG Property/Casualty Pool, Inc.	MASB-SEG Reinsurance Limited	Consolidated Totals	Consolidated Totals
Revenue				
Premiums	\$ 32,184,839	\$ 50,000	\$ 32,234,839	\$ 30,727,561
Investment earnings	2,082,494	119,946	2,202,440	1,723,844
Realized and unrealized gains and losses on investments	31,162	(63,775)	(32,613)	596,592
Total revenue	34,298,495	106,171	34,404,666	33,047,997
Claims (Note 4)				
Paid	15,520,690	(686)	15,520,004	9,117,056
Increase in reserves for claims	(5,736,456)	-	(5,736,456)	1,270,665
Total claims	9,784,234	(686)	9,783,548	10,387,721
Excess of Revenue Over Claims	24,514,261	106,857	24,621,118	22,660,276
Expenses				
Reinsurance fees (Note 6)	10,327,281	-	10,327,281	8,935,749
Administrative fees (Note 3)	2,263,275	25,784	2,289,059	1,720,184
MCCA assessment	1,349,057	-	1,349,057	1,016,665
Professional fees	41,077	21,360	62,437	37,360
Other	220,913	37,505	258,418	576,977
Total expenses	14,201,603	84,649	14,286,252	12,286,935
Excess of Revenue Over Expenses and Claims	10,312,658	22,208	10,334,866	10,373,341
Premium and Investment Earnings Surplus Returned to Members (Note 5)	(4,269,413)	-	(4,269,413)	(4,112,213)
Increase in Net Assets	6,043,245	22,208	6,065,453	6,261,128
Net Assets - Beginning of year	27,826,250	5,633,064	33,459,314	21,214,872
Combination of Subsidiary	-	-	-	5,983,314
Net Assets - End of year	<u>\$ 33,869,495</u>	<u>\$ 5,655,272</u>	<u>\$ 39,524,767</u>	<u>\$ 33,459,314</u>

MASB-SEG Property/Casualty Pool, Inc. and Subsidiary

Consolidated Statement of Cash Flows

	Years Ended June 30			
	2005		2004	
	MASB-SEG Property/Casualty Pool, Inc.	MASB-SEG Reinsurance Limited	Consolidated Totals	Consolidated Totals
Cash Flows from Operating Activities				
Cash received from members	\$ 32,525,253	\$ 50,000	\$ 32,575,253	\$ 30,301,815
Cash received from excess insurance carriers	(2,130,696)	-	(2,130,696)	(37,174)
Cash paid for claims	(15,520,690)	686	(15,520,004)	(9,617,056)
Cash paid to suppliers and others	(13,006,399)	(84,559)	(13,090,958)	(11,836,009)
Net cash provided by (used in) operating activities	1,867,468	(33,873)	1,833,595	8,811,576
Cash Flows from Investing Activities				
Investment income received	2,118,302	119,946	2,238,248	1,661,836
Net change in short-term investments	1,782,069	2,446	1,784,515	1,419,316
Purchase of investments	(34,748,786)	(5,323,083)	(40,071,869)	(62,454,265)
Proceeds from sales and maturities of investments	32,930,482	5,166,900	38,097,382	55,162,907
Net cash provided by (used in) investing activities	2,082,067	(33,791)	2,048,276	(4,210,206)
Cash Flows from Noncapital Financing Activities				
Net change in bank overdraft	-	-	-	(533,917)
Premium and investment earnings surplus returned to members	(4,069,413)	(50,000)	(4,119,413)	(4,012,213)
Net cash used in noncapital financing activities	(4,069,413)	(50,000)	(4,119,413)	(4,546,130)
Net Change in Cash and Cash Equivalents	(119,878)	(117,664)	(237,542)	55,240
Cash and Cash Equivalents - Beginning of year	167,925	145,318	313,243	258,003
Cash and Cash Equivalents - End of year	<u>\$ 48,047</u>	<u>\$ 27,654</u>	<u>\$ 75,701</u>	<u>\$ 313,243</u>

MASB-SEG Property/Casualty Pool, Inc. and Subsidiary

Consolidated Statement of Cash Flows (Continued)

A reconciliation of excess of income over (under) expenses and claims to net cash provided by (used in) operating activities is as follows:

	Years Ended June 30			
	2005		2004	
	MASB-SEG Property/Casualty Pool, Inc.	MASB-SEG Reinsurance Limited	Consolidated Totals	Consolidated Totals
Excess of revenue over expenses and claims	\$ 10,312,658	\$ 22,208	\$ 10,334,866	\$ 10,373,341
Adjustments to reconcile excess of revenue over expenses and claims to net cash from operating activities:				
Realized and unrealized (gains) losses on investments	(31,162)	63,775	32,613	(613,138)
Investment earnings	(2,082,494)	(119,946)	(2,202,440)	(1,723,844)
(Increase) decrease in assets:				
Premiums receivable	151,893	-	151,893	(124,762)
Accounts receivable - Reinsurance	(2,130,696)	-	(2,130,696)	313,784
Prepaid assets	27,659	-	27,659	-
Increase (decrease) in liabilities:				
Accounts payable	1,195,204	90	1,195,294	99,968
Deferred revenue	160,862	-	160,862	(284,438)
Reserves for claims	(5,736,456)	-	(5,736,456)	1,270,665
Corridor deductible	-	-	-	(500,000)
Net cash provided by (used in) operating activities	<u>\$ 1,867,468</u>	<u>\$ (33,873)</u>	<u>\$ 1,833,595</u>	<u>\$ 8,811,576</u>

Premium and investment earnings surplus to be returned to members totaling \$4,300,000 and \$4,100,000 were approved during the years ended June 30, 2005 and 2004, respectively, and are reflected as premium and investment earnings surplus due to members in the consolidated statement of net assets.

MASB-SEG Property/Casualty Pool, Inc. and Subsidiary

Notes to Consolidated Financial Statements June 30, 2005 and 2004

Note 1 - Nature of Business and Significant Accounting Policies

MASB-SEG Property/Casualty Pool, Inc. (the "Pool") was created on May 23, 1985 and organized under the laws of the state of Michigan as a governmental group property and casualty self-insurance pool. Operating activities of the Pool began July 1, 1986. A total of 468 educational institutions within the state of Michigan participate in the Pool. The Pool's general objectives are to formulate, develop, and administer, on behalf of the members, a program of insurance, to obtain lower costs for that coverage, and develop a comprehensive loss prevention program. The revenue and expenses for each self-insurance year are accounted for separately to determine net assets and deficiencies in net assets. A member's contribution to the Pool in excess of its share of claim losses, expenses, and other costs may be refunded as determined by the board of trustees (see Note 5). With the assistance of an actuary, the Pool may assess members a supplemental assessment in the event of deficiencies.

During the year ended June 30, 2004, the Pool acquired MASB-SEG Reinsurance Limited (the "Company") in a business combination accounted for in a method similar to a pooling of interest. The Company was incorporated as an exempted company under the Companies Law of the Cayman Islands on May 26, 1981, and holds a Restricted Class "B" Insurer's License under Section 4 (2) of the Cayman Islands Insurance Law and its primary line of business is to provide aggregate excess reinsurance to the Pool. The accompanying consolidated financial statements are based on the assumption that the entities were combined for the full year.

Principles of Consolidation - The consolidated financial statements include the accounts of MASB-SEG Reinsurance Limited, a 100 percent wholly owned subsidiary of MASB-SEG Property/Casualty Pool, Inc. There were no significant intercompany transactions which required elimination as of the years ended June 30, 2005 and 2004.

Cash and Cash Equivalents - The Pool considers all cash and cash equivalents held by financial institutions with maturities of three months or less or held on hand to be cash and cash equivalents. All other short-term investments and long-term investments are excluded from cash and cash equivalents.

Investments - Investments are stated at fair value, based on quoted market prices.

Accounts Receivable - Accounts receivable are stated at invoice cost. Account balances that are deemed uncollectible are written off and membership is terminated.

Deferred Revenue - Prepayments of premiums are recorded as deferred revenue until the premiums are earned. The revenue is recognized during the applicable policy period.

MASB-SEG Property/Casualty Pool, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Reserves for Claims - Reserves for claims represent the estimated liability for unpaid insurance losses and related expenses from reported claims and claims incurred but not reported. Changes to estimates are reflected in earnings currently.

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates exist relating to reserves for claims as described in Note 4.

Tax Status - Premium and investment income of the Pool is tax exempt under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes is reflected in the consolidated financial statements.

Note 2 - Deposits and Investments

The Pool's investment policy authorizes the Pool to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan.

The Pool designated Comerica Bank for the deposit of its funds.

The Pool's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Pool's deposits may not be returned to it. The Pool does not have a deposit policy for custodial credit risk of bank deposits. At year end, the Pool's deposit balance of \$81,433 had no bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Pool believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Pool evaluates each financial institution with which it deposits trusts and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

MASB-SEG Property/Casualty Pool, Inc. and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2005 and 2004

Note 2 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Pool's investment policy does not restrict investment maturities. The Pool's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and limiting the average maturity in accordance with the Pool's cash requirements.

At June 30, 2005, the average maturities of investments are as follows:

Investment Type	Fair Value	Weight Average Maturity (Years)
U.S. Treasury securities	\$ 9,558,785	4.95
U.S. agencies and passthroughs	11,306,900	6.88
Asset-backed securities	2,205,761	4.28
Corporate CMO	943,884	24.73
Corporate bonds	12,664,772	5.54
Money markets	1,373,053	-
Mutual funds	5,639,021	-
Common stocks	13,714,112	-
Total fair value	<u>\$ 57,406,288</u>	
Portfolio weighted average maturity		<u>6.22</u>

Credit Risk - Credit risk is the risk that an issuer to an investment will not fulfill its obligations. In accordance with the Pool's investment policy, the Pool may invest in U.S. government securities, corporate bonds, certain equity securities, collateralized mortgage obligations, asset-backed securities, and certain mutual funds.

MASB-SEG Property/Casualty Pool, Inc. and Subsidiary

Notes to Consolidated Financial Statements June 30, 2005 and 2004

Note 2 - Deposits and Investments (Continued)

At June 30, 2005, the credit quality ratings of debt securities by investment type (other than the U.S. government) are as follows:

Rating	Fair Value
Asset-backed securities:	
Aaa	\$ 1,804,209
A3	401,552
Total	<u>\$ 2,205,761</u>
Corporate CMO - Aaa	<u>\$ 943,884</u>
Corporate bonds:	
Aaa	\$ 559,139
Aa1	194,799
Aa2	1,202,533
Aa3	1,691,467
A1	2,962,720
A2	2,503,325
A3	1,258,357
Baa1	702,038
Baa2	986,649
Baa3	603,745
Total	<u>\$ 12,664,772</u>

The rating organization used by the Pool to rate its investments is Moody's.

Concentration of Credit Risk - The Pool places no limit on the amount the Pool may invest in any one issuer. There were no investments that individually exceed 5 percent of the Pool's total investments at June 30, 2005.

Note 3 - Administrative Fees

The Pool incurred \$2,289,059 and \$1,720,184 in administrative fees for the years ended June 30, 2005 and 2004, respectively. These administrative services were provided by Set, Inc., a company affiliated through common management. These services included insurance billing and collection, marketing, general accounting services, and office space.

MASB-SEG Property/Casualty Pool, Inc. and Subsidiary

Notes to Consolidated Financial Statements June 30, 2005 and 2004

Note 4 - Reserves for Claims

The reserves for claims incurred but not reported is estimated by an independent actuary based upon the Pool's historical experience of claims incurred prior to June 30, 2005. The estimates reflect the actuary's best judgment as to the potential for claims to increase beyond the amounts already paid and reserved on filed claims, including the effects of inflation and other societal and economic factors. It is at least reasonably possible that a material change in the estimate will occur within the near term and thus the actual claims paid may be substantially different than these estimates. Any future adjustments to these amounts will affect the reported results of future periods.

The following represents changes in reserves for claims for the years ended June 30, 2005 and 2004:

	2005	2004
Reserves for Claims - Beginning of year	\$ 18,724,050	\$ 17,453,385
Incurred Claims and Claim Adjustment Expenses		
Provision for claims incurred in current year	13,390,909	13,903,677
Decrease in provision for claims incurred in prior years	<u>(3,607,361)</u>	<u>(3,515,956)</u>
Total incurred claims and claims adjustment expenses	9,783,548	10,387,721
Payments		
Claims and claims expenses paid for claims incurred in current year	7,442,638	5,099,747
Claims and claims expenses paid for claims incurred in prior years	<u>8,077,366</u>	<u>4,017,309</u>
Total payments	<u>15,520,004</u>	<u>9,117,056</u>
Reserves for Claims - End of year	<u>\$ 12,987,594</u>	<u>\$ 18,724,050</u>

MASB-SEG Property/Casualty Pool, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2005 and 2004

Note 4 - Reserves for Claims (Continued)

The details of the reserve for claims are given below:

	2005	2004
Reported but unpaid	\$ 6,538,670	\$ 11,355,001
Incurred but not reported	<u>6,448,924</u>	<u>7,369,049</u>
Total	<u>\$ 12,987,594</u>	<u>\$ 18,724,050</u>

The following, based on historical trends of the Pool, summarizes the anticipated settlement of claims at June 30, 2005 and 2004:

	2005	2004
Claims anticipated to be settled within one year	\$ 4,290,000	\$ 5,440,000
Claims anticipated to be settled in excess of one year	<u>8,697,594</u>	<u>13,284,050</u>
Total reserves for claims	<u>\$ 12,987,594</u>	<u>\$ 18,724,050</u>

Note 5 - Net Assets

Premium and investment earnings surplus funds from net assets may be returned to members of the Pool at the discretion of the board of trustees. The board of trustees approved the return of premium and investment earnings surplus of \$4,300,000 and \$4,100,000 during the years ended June 30, 2005 and 2004, respectively.

Note 6 - Excess Insurance Coverage

The Pool uses excess insurance agreements to reduce its exposure to large aggregate and specific losses. Excess insurance permits recovery of a portion of losses from excess insurance carriers, although it does not discharge the primary liability of the Pool as direct insurer of the risks reinsured. The Pool does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. Premiums ceded to excess insurance carriers during the years ended June 30, 2005 and 2004 totaled \$10,327,281 and \$8,935,749, respectively, and the amounts deducted from reserves for claims as of June 30, 2005 and 2004 for excess insurance was \$6,042,196 and \$5,840,625, respectively.

Required Supplemental Schedules

To the Board of Trustees
MASB-SEG Property/Casualty Pool, Inc. and Subsidiary

We have audited the consolidated financial statements of MASB-SEG Property/Casualty Pool, Inc. and Subsidiary (a not-for-profit corporation) for the years ended June 30, 2005 and 2004. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedules of operations by policy years for MASB-SEG Property/Casualty Pool, Inc. and claims development for MASB-SEG Property/Casualty Pool, Inc. are presented for the purpose of additional analysis and are not a required part of the basic consolidated financial statements. The information for the years ended June 30, 2005 and 2004 has been subjected to the procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

The schedules of operations by policy years for MASB-SEG Property/Casualty Pool, Inc. and claims development for MASB-SEG Property/Casualty Pool, Inc. compiled from June 30, 1994 through June 30, 2005, on pages 17 and 18, have been prepared from financial statements for each of the respective years shown in the schedules of operations by policy years for MASB-SEG Property/Casualty Pool, Inc. and claims development for MASB-SEG Property/Casualty Pool, Inc. as updated for subsequent activity. We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements from which the schedules of operations by policy years for MASB-SEG Property/Casualty Pool, Inc. and claims development for MASB-SEG Property/Casualty Pool, Inc. were derived. In our opinion, the schedules of operations by policy years for MASB-SEG Property/Casualty Pool, Inc. and claims development for MASB-SEG Property/Casualty Pool, Inc. are fairly stated in all material respects in relation to the consolidated financial statements from which they have been derived.

Plante & Moran, PLLC

September 2, 2005

MASB-SEG Property/Casualty Pool, Inc. and Subsidiary

Schedule of Operations by Policy Years for MASB-SEG Property/Casualty Pool, Inc.

	Prior Years	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Combined
Revenue												
Premiums	\$ 104,248,231	\$ 13,588,771	\$ 13,598,266	\$ 13,872,729	\$ 14,564,517	\$ 16,194,156	\$ 18,454,494	\$ 21,457,078	\$ 27,072,906	\$ 30,717,560	\$ 32,184,839	\$ 305,953,547
Investment income	25,845,291	1,342,452	2,179,450	1,398,591	1,357,019	221,772	63,275	497,356	1,236,738	575,302	409,582	35,126,828
Total revenue	130,093,522	14,931,223	15,777,716	15,271,320	15,921,536	16,415,928	18,517,769	21,954,434	28,309,644	31,292,862	32,594,421	341,080,375
Claims												
Paid	35,124,582	7,803,710	7,606,108	7,163,009	11,220,962	7,452,932	9,582,670	8,794,687	7,584,871	8,963,129	7,442,638	118,739,298
Reported reserves	-	-	-	102,073	150,734	48,714	408,304	488,572	1,123,661	2,541,178	1,675,432	6,538,668
IBNR reserves	-	-	-	-	-	389	38,189	230,871	620,593	1,286,043	4,272,839	6,448,924
Total claims	35,124,582	7,803,710	7,606,108	7,265,082	11,371,696	7,502,035	10,029,163	9,514,130	9,329,125	12,790,350	13,390,909	131,726,890
Excess of Revenue Over												
Claims - Before expenses	94,968,940	7,127,513	8,171,608	8,006,238	4,549,840	8,913,893	8,488,606	12,440,304	18,980,519	18,502,512	19,203,512	209,353,485
Expenses												
Service agent fees	727,621	53,330	63,620	52,248	53,108	59,991	64,678	70,745	8,284	-	-	1,153,625
Reinsurance fees	24,537,085	2,412,907	2,414,423	2,252,451	2,214,700	2,703,979	3,159,759	4,081,151	8,614,403	9,598,270	10,004,187	71,993,315
Administrative fees	6,440,164	852,453	764,587	775,902	838,184	898,264	974,299	1,273,489	1,543,156	1,720,184	2,263,275	18,343,957
MCCA assessment	3,972,856	496,670	139,598	66,548	77,935	95,174	182,976	443,601	629,144	1,222,457	1,299,883	8,626,842
Other	701,646	41,660	39,998	49,072	54,971	58,449	61,610	97,689	137,769	123,591	176,895	1,543,350
Total expenses	36,379,372	3,857,020	3,422,226	3,196,221	3,238,898	3,815,857	4,443,322	5,966,675	10,932,756	12,664,502	13,744,240	101,661,089
Excess of Revenue Over												
Claims and Expenses	58,589,568	3,270,493	4,749,382	4,810,017	1,310,942	5,098,036	4,045,284	6,473,629	8,047,763	5,838,010	5,459,272	107,692,396
Dividends Paid	5,910,768	-	-	-	-	-	-	-	-	-	-	5,910,768
Surplus Returned	50,382,450	2,841,929	3,929,551	2,716,608	1,048,015	3,252,599	2,240,981	1,500,000	-	-	-	67,912,133
Net Assets	\$ 2,296,350	\$ 428,564	\$ 819,831	\$ 2,093,409	\$ 262,927	\$ 1,845,437	\$ 1,804,303	\$ 4,973,629	\$ 8,047,763	\$ 5,838,010	\$ 5,459,272	\$ 33,869,495

This schedule of restated operations by policy years takes into account the most current information from the redetermination of the reserve for incurred but unpaid claims for the individual policy years June 30, 1987 through 2005.

MASB-SEG Property/Casualty Pool, Inc. and Subsidiary

Schedule of Claims Development for MASB-SEG Property/Casualty Pool, Inc.

	1996	1997*	1998	1999	2000	2001	2002	2003	2004	2005
Required premiums and investment income:										
Earned	\$ 14,109,498	\$ 14,546,261	\$ 14,291,964	\$ 15,133,338	\$ 16,466,059	\$ 18,502,544	\$ 21,476,458	\$ 27,797,961	\$ 31,138,231	\$ 32,594,421
Ceded	-	2,414,423	2,252,451	2,214,700	2,701,201	3,005,574	4,034,520	9,000,462	9,275,177	10,004,187
Net earned	14,109,498	12,131,838	12,039,513	12,918,638	13,764,858	15,496,970	17,441,938	18,797,499	21,863,054	22,590,234
Expenses	1,444,113	1,007,803	943,770	1,024,198	1,111,875	1,152,234	1,885,524	2,318,353	2,931,964	3,874,322
Estimated claims and expenses, end of policy year:										
Incurred	9,185,176	9,322,376	11,732,915	13,585,910	11,337,938	12,682,041	14,855,326	14,437,530	17,803,677	18,390,909
Ceded	-	350,000	2,105,000	1,800,000	2,000,000	950,000	1,300,000	2,100,000	3,900,000	5,000,000
Net incurred	9,185,176	8,972,376	9,627,915	11,785,910	9,337,938	11,732,041	13,555,326	12,337,530	13,903,677	13,390,909
Paid (cumulative) as of:										
End of policy year	2,743,958	2,834,571	3,186,088	4,724,972	2,280,640	3,998,193	4,587,310	4,148,338	5,099,747	7,442,638
One year later	4,714,310	5,521,041	5,978,346	6,589,823	3,980,907	7,676,519	8,125,563	6,459,139	8,963,129	-
Two years later	6,083,885	6,466,131	6,505,697	7,701,818	5,780,035	8,789,546	8,537,666	7,584,871	-	-
Three years later	7,198,298	7,324,991	7,104,677	8,097,861	6,501,494	9,318,516	8,794,687	-	-	-
Four years later	7,554,958	7,366,235	7,886,070	8,360,375	6,682,167	9,582,670	-	-	-	-
Five years later	7,717,010	7,574,496	7,931,913	8,650,221	7,452,932	-	-	-	-	-
Six years later	7,765,054	7,595,210	7,935,261	11,220,962	-	-	-	-	-	-
Seven years later	7,782,280	7,605,965	7,163,009	-	-	-	-	-	-	-
Eight years later	7,803,710	7,606,108	-	-	-	-	-	-	-	-
Nine years later	7,803,710	-	-	-	-	-	-	-	-	-
Reestimated ceded claims and expenses	-	-	7,711,401	1,846,295	5,794,997	30,000	510,000	273,000	4,200,000	5,000,000
Reestimated incurred claims and expenses										
End of policy year	9,185,176	8,972,376	9,627,915	11,785,910	9,337,938	11,732,041	13,555,326	12,337,530	13,903,677	13,390,909
One year later	8,639,852	9,342,796	9,634,489	11,445,995	8,441,971	10,885,213	11,535,535	10,659,718	12,790,350	-
Two years later	8,428,456	9,616,481	8,301,654	10,887,661	7,382,291	10,871,501	9,686,389	9,329,125	-	-
Three years later	8,525,981	9,091,324	8,114,975	9,256,796	7,982,408	10,677,762	9,514,130	-	-	-
Four years later	8,704,838	8,815,481	8,039,772	9,632,503	7,943,704	10,029,163	-	-	-	-
Five years later	8,229,746	8,457,432	8,311,913	10,188,185	7,502,035	-	-	-	-	-
Six years later	8,025,559	8,070,159	8,311,913	11,371,696	-	-	-	-	-	-
Seven years later	7,908,573	7,613,477	7,265,082	-	-	-	-	-	-	-
Eight years later	7,803,710	7,606,108	-	-	-	-	-	-	-	-
Nine years later	7,803,710	-	-	-	-	-	-	-	-	-
Increase (decrease) in estimated incurred claims and expenses from end of policy year	(1,381,466)	(1,366,268)	(2,362,833)	(414,214)	(1,835,903)	(1,702,878)	(4,041,196)	(3,008,405)	(1,113,327)	-

*MASB-SEG Property/Casualty Pool, Inc. adopted GASB Statement No. 30, Risk Finance Omnibus, an amendment of GASB No. 10, on a prospective basis.